

**impact  
guarantee.**

# **Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget**

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**By: Impact Guarantee,  
a project of the Catalytic Capital Lab**

## List of Recommendations

### Recommendation 1:

That the Government of Canada continue implementing a comprehensive social finance strategy that scales the work of social finance intermediaries through tools such as wholesale investment, tax incentives, loan guarantees, accreditation, and the participation of Crown corporations, pensions, and banks to expand local investment and build resilient economies.

### Recommendation 2:

That the Government of Canada endorses and enables the sector-led Impact Guarantee program as a cost-effective, core component of a comprehensive Canadian social finance strategy, filling an existing gap in federal loan guarantee infrastructure and supporting social finance intermediaries across Canada to mobilize additional investment and expand access to capital in underserved communities.

### Recommendation 3:

That the Government of Canada commit to participate in Impact Guarantee as a guarantor with a \$50 million loan guarantee commitment alongside commitments from foundations and institutional investors to leverage philanthropic capital and unlock further private and retail investment at a scale that cannot be achieved otherwise.

### Recommendation 4:

That the Government of Canada provide \$5 million in non-repayable capital to the Impact Guarantee's first-loss fund, providing a streamlined, operationally efficient mechanism to protect and strengthen the Impact Guarantee program in its entirety.

## Introduction: Building Canadian Sovereignty Through Social Finance

Canada faces a series of crises. Geopolitical risks are rising, threatening our sovereignty. Affordability and climate change are impacting all Canadians. The Prime Minister's mandate emphasizes spending less on government operations so that Canadians can invest more in the people and businesses that will build a strong economy.

Canada's ongoing prosperity depends on enabling inclusive, locally driven economic growth. While the government has committed to "building an economy that works for everyone," too many communities and individuals remain excluded from the financial mainstream and face barriers to accessing the capital needed to grow.

Social finance ensures that capital flows to where it is needed most. The [Social Finance Fund](#) (SFF) has accelerated interest in mobilizing such capital. As part of this strategy, across the country, a growing network of 40+ debt-issuing social finance intermediaries (SFIs) is stepping in where traditional financial institutions cannot, providing flexible, timely and patient capital and expertise for affordable housing, Indigenous infrastructure, local food systems, climate resilience, non-profit infrastructure, and small businesses.

However, operating a smaller or place-based fund focused on providing affordable repayable loans presents several challenges. They tend to operate and invest with amounts well under \$25M of assets under management, with lean operating budgets. They work with communities, organizations and population groups that have experienced biases and carry perceptions of increased risk. They tend to operate outside of (and in addition to) mainstream financial networks and are often unable to access traditional government supports, including government loan guarantees.

A key piece of infrastructure not yet included in the SFF strategy is a loan guarantee program. Without appropriate risk-sharing mechanisms, these smaller, place-based funds, which are best positioned to generate meaningful economic impact and resilience, are hindered in their growth.

Impact Guarantee is a national loan guarantee pool designed and operated by the [Catalytic Capital Lab](#), a sector-led collaborative bringing together funders and SFIs from across Canada. This existing program requires no new federal infrastructure or operations and addresses a critical gap in Canada's social finance strategy.

With a modest investment, this approach focuses federal spending on results, with the potential for every public dollar to unlock \$3 to 4 private dollars, delivering impact without expanding the cost or size of government and incentivizing long-term investments.

## How Social Finance Can Strengthen Canada's Economy

A comprehensive social finance strategy for Canada would mobilize capital, create jobs, and build resilient local economies. Such a strategy would include measures such as tax incentives, loan guarantees, accreditation of social finance institutions, legislation to ensure financial institutions serve underserved areas, and the engagement of Crown corporations, pensions, and banks to invest alongside community-led funds. Together, these elements would create the enabling environment needed to expand local investment and strengthen economic resilience.

Across Canada, SFIs<sup>1</sup>—place-based and impact-first funds—support local economic opportunities that traditional lenders cannot or will not serve. These funds take many forms, including place-based impact funds, community outcomes funds, investment co-operatives, and community loan funds.

These funds:

- Provide early-stage and growth capital to entrepreneurs and organizations overlooked by traditional financing.
- Deliver social, environmental, and cultural value to local communities.
- Provide wrap-around supports and technical expertise to help investees grow and become investment-ready.
- Connect investees to networks and capital.
- Help impact organizations and entrepreneurs access traditional capital by acting as flexible lenders and reducing risk.

In this way, they strengthen local economies, create jobs, and build resilience in communities, an essential element of Canadian sovereignty. These place-based and impact-first funds are essential infrastructure, addressing capital gaps and ensuring the full spectrum of impact investing is realized in Canada.

## Challenges Facing Social Finance Intermediaries

Despite their value, SFIs face persistent structural barriers:

- Small size: Most manage well under \$25M in assets, often between \$1M and \$25M.
- Lean operations and low margins.
- Higher perceived risk due to the markets they serve.
- Inability to absorb early-stage loan losses.

Collectively, these community lending funds currently hold about \$94 million in assets, which could grow to \$500 million if the right conditions are in place. Loss rates of 5–10% are typical. Without a national loan guarantee program, their growth is constrained, and economic opportunities unrealized.

## The Missing Infrastructure: A National Loan Guarantee Program

Through the work and research of the [Catalytic Capital Lab](#), more than 40 SFIs have co-designed the Impact Guarantee program, a national loan guarantee pool to complement existing Canadian social finance initiatives. This facility provides a many-to-many risk-sharing infrastructure that will allow these funds to grow and unlock opportunities in the parts of the economy that have been left out of mainstream finance, so they can contribute fully to local and national growth.

### Structure:

- \$100 million pooled unfunded guarantee pool
- \$5 million funded first-loss reserve and operating fund (to grow over time with additional philanthropic contributions)

### Model:

- Each participating SFI covers 50% of any losses from its portfolio.
- Losses beyond this are covered first by earnings on the first-loss reserve, then by the unfunded guarantee pool on a pro-rata basis (to a threshold).
- Participating SFIs pay an annual premium for participation, which supports operations and provides an annual contribution to the first-loss reserve fund.
- Participating guarantors (foundations, private institutions, family offices) provide unfunded guarantees in 1–5M increments for 5 and 10-year terms.
- Annual claims on the guarantee pool are made consistent with actual losses.

The first-loss reserve is not a traditional grant. It is a catalytic investment designed to reduce risk for other investors and attract much larger pools of capital. The Province of Ontario has already shown how this works: its first-loss capital enabled the Verge Breakthrough Fund to attract over \$2.2 million from 20 local investors into affordable housing, community real estate, and social enterprises. This structure turns limited one-time government support into a catalyst for private capital, ensuring that federal participation produces lasting results rather than ongoing program costs.

## Opportunity for Canadian Government Participation

In 2025–2027, \$50 million in guarantee commitments will be secured from foundations and institutional investors. Federal participation as a guarantor with \$50 million will create a multiplier effect, incentivizing matching funds and drawing in further philanthropic, private, and retail investors. This partnership approach ensures that private capital is mobilized alongside public funds.

By joining at this stage, the Government of Canada can meet its mandate to spend less on government operations while unlocking investment in parts of the economy that have been excluded from capital markets, connecting these regions and sectors to Canada's broader economic growth. It will ensure social finance dollars reach the highest-impact but most underserved parts of the sector—where traditional financing cannot or will not go. This partnership will build resilience, expand opportunity, and strengthen communities across Canada.

## Benefits of Loan Guarantees to Support Economic Growth

Canada already uses loan guarantee models to unlock capital and seed economic growth in other sectors. Programs such as the [Canada Small Business Financing Program](#), the [Canadian Agricultural Loans Act Program](#), and the [Canadian Indigenous Loan Guarantee Program](#) demonstrate that loan guarantee programs help reduce lender risk, make private capital more accessible, and enable participation in economic opportunities that would not otherwise be possible.

However, there is no such mechanism for the social finance sector. This gap prevents private sector investment from flowing into underserved parts of the economy—affordable housing, climate resilience, and community enterprise—despite their central importance to building prosperity for all Canadians.

Supporting the Impact Guarantee program directly addresses this gap and supports the goals of the government by:

- **Diversifying risk:** Reducing the exposure of small community finance intermediaries so they can grow.
- **Attracting capital:** Making private (accredited and retail) and philanthropic investors more confident to invest in these funds.
- **Enhancing investor confidence:** Creating a safety net that encourages additional risk-taking in underserved communities.
- **Supporting growth:** Allowing funds to focus on generating pipelines of projects and raising risk-backed lending capital to meet financing demands.

By filling this gap with a loan guarantee pool, Impact Guarantee will strengthen regional economic development, expand opportunities in overlooked regions and sectors, and build financial resilience that strengthens Canada's economy.

## Alignment with the Prime Minister's Mandate

The Impact Guarantee program is led by the social finance sector. It does not require a new federal program or bureaucracy. Instead, federal participation is designed to come in alongside \$50 million committed by philanthropic and institutional partners.<sup>11</sup>

This approach moves public resources out of administration and into direct partnership with communities, reflecting the Prime Minister's call to spend less on government operations so Canadians can invest more in the people and businesses that will build a strong Canadian economy. Participation in the Impact Guarantee program will strengthen underserved economies, enable private capital to flow to communities at a scale that has not been possible to date, and create a foundation for Canadian-led growth that brings every region and sector into the country's economic success.

## Conclusion: Unlock the Full Potential of the Social Finance Fund and Community Finance to Strengthen Canada's Communities

A national loan guarantee program is the missing infrastructure needed to ensure that SFIs can do what they are best positioned to do—flow capital and support to meet communities' needs and strengthen and grow our local economies.

Federal participation in the Impact Guarantee loan guarantee program will support SFIs to grow beyond their current size, absorb early-stage losses, and focus on lending and building strong project pipelines instead of operating in permanent states of uncertainty and risk.

Unlocking capital is essential for building a Canadian economy where every region and community can contribute to long-term growth and competitiveness. By joining and supporting this sector-led pool, the Government of Canada can unlock significant private investment, strengthen the capacity of Canadian communities, and build economic sovereignty from the ground up.

<sup>i</sup> Place-based and impact-first funds engaged to date: African Canadian Farmer Fund, Afro-Caribbean Business Network Micro-loan Fund, Black Opportunity Fund, Bloom Local Food Fund, Canadian Workers Co-operative, Canadian Co-operative Investment Fund, Community Forward Fund, Community Sector Council, NL Caribou Fund, Duca Impact Lab, EntrepreNorth, Equitable Transit-Oriented Affordable Housing, Fair Finance Fund, Farm Works, The Federation of African Canadian Economics Black Entrepreneurship Loan Fund, Harvest Impact, Kaléidoscope Social Impact Fund, Local Investing YYC, Microcredit Montreal, Nourish Fund, Paro Centre for Women's Enterprise, Propel Impact Fund, Raven Indigenous Outcomes Fund, Refugee Impact Fund, Rise Asset Development, Shorefast, Social Enterprise Fund, Solid State, Territoires Solidaires, Spring Impact Capital, Thrive Impact Fund, Toronto Impact Initiative, Tribe Ventures, Ulnooweg Development Group, Union Co-operative, Vancity Affordable Housing Accelerator Fund, VERGE Capital, West Kooteney Boundary CIC.

<sup>ii</sup> Funders and impact investors engaged to date: Ontario Trillium Foundation, Definity Foundation, Boann Social Impact, McConnell Foundation, Dragonfly Ventures, Inspirit Foundation, Worldwide Education Services (WES), Lawson Foundation, CIBC Foundation, Robert Kerr Foundation, and Coast Capital Savings Credit Union